



## Senate

General Assembly

**File No. 656**

January Session, 2013

Substitute Senate Bill No. 1110

*Senate, May 1, 2013*

The Committee on Finance, Revenue and Bonding reported through SEN. FONFARA of the 1st Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

### ***AN ACT CONCERNING ALTERNATIVE METHODS FOR THE COLLECTION AND REMITTAL OF SALES AND USE TAXES.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1      Section 1. (*Effective from passage*) (a) The Commissioner of Revenue  
2      Services shall analyze alternative methods to enforce and enhance the  
3      collection and remittal of sales and use taxes by retailers, as required  
4      pursuant to chapter 219 of the general statutes. The commissioner shall  
5      consider (1) the amount of sales and use taxes that are annually  
6      uncollected or consistently delinquent, (2) the availability and  
7      effectiveness of such alternative methods, including any electronic  
8      software available for purchase or license to assist in the collection and  
9      remittal of said taxes, (3) the advisability of requiring more frequent  
10     remittal of said taxes, particularly for retailers with a higher tax  
11     liability, (4) the advisability of instituting a payment system whereby  
12     the state may receive payment of said taxes electronically on or about  
13     the date of the taxable transaction, from third-party processors of  
14     consumer credit or debit card payments or electronic funds transfers,

15 (5) whether such methods should be required for all retailers, only for  
 16 retailers consistently delinquent in remitting said taxes, only for  
 17 retailers either above or below a specific dollar level of quarterly tax  
 18 liability, or for some combination thereof, and (6) whether such  
 19 methods are likely to reduce deficiencies and increase collections and  
 20 remittals.

21 (b) Not later than October 1, 2013, the commissioner shall report his  
 22 findings and recommendations to the joint standing committee of the  
 23 General Assembly having cognizance of matters relating to finance,  
 24 revenue and bonding. Not later than thirty days after receiving such  
 25 findings and recommendations, the committee may convene a meeting  
 26 to vote to approve or disapprove such recommendations. If the  
 27 committee does not act on the recommendations within such thirty  
 28 days, the recommendations shall be deemed to be approved by the  
 29 committee.

30 (c) Not later than January 1, 2014, the commissioner shall commence  
 31 implementation of such alternative methods of collection and remittal  
 32 of sales and use taxes as have been recommended by the commissioner  
 33 and approved by the committee, as provided in subsection (b) of this  
 34 section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	New section

**FIN**      *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

## **OFA Fiscal Note**

### **State Impact:**

<b>Agency Affected</b>	<b>Fund-Effect</b>	<b>FY 14 \$</b>	<b>FY 15 \$</b>
Department of Revenue Services	GF - Revenue Gain, Uncertain	35,000 - 14 million	140,000 - 60 million
Department of Revenue Services; State Comptroller - Fringe Benefits <sup>1</sup>	GF - Cost, Uncertain	Potential Significant	Potential Significant
Department of Revenue Services	GF - Savings, Uncertain	Potential Minimal	Potential Minimal

### **Municipal Impact:**

<b>Municipalities</b>	<b>Effect</b>	<b>FY 14 \$</b>	<b>FY 15 \$</b>
All Municipalities	Revenue Gain	Potential	Potential

### **Explanation**

The bill is anticipated to enhance collection of the Sales and Use Tax, which would generate a state and municipal revenue gain. The potential magnitude of any revenue gain is uncertain, however, pending the following: 1) results of a study by the Commissioner of Revenue Services, 2) the Commissioner's recommendations, 3) action by the Finance, Revenue and Bonding Committee, and 4) implementation of alternative methods for collection and remittance of Sales and Use Tax. Depending upon the collections policy implemented, the bill may result in a cost or savings to the Department of Revenue Services related to administration of the Sales and Use Tax.

### **State Sales Tax Collections Revenue Gain**

<sup>1</sup>The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 34.54% of payroll in FY 14 and FY 15.

Presuming a new collection system as intended by the bill is implemented in 2014, the revenue gain ranges from minimal up to \$14 million in FY 14. The estimated revenue gain in FY 15 ranges from minimal up to \$60 million. The actual impact will depend upon the method or system which DRS may implement.

If DRS implements a method which would allow, but not require, a retailer to systematically set aside money for the purpose of sales tax remittance, then the total estimated revenue gain would be minimal. It is anticipated under this scenario that most businesses would not change their current behavior in regards to accounting and remitting sales tax due to the state.

If DRS implements a system that effectively collects all sales and use tax due in a timely manner on April 1, 2014, then the total estimated revenue gain would be up to \$14 million in FY 14 and up to \$60 million in FY 15. This estimate assumes that all tax due which is either deemed uncollectable by DRS or goes undetected by DRS would be collected. This estimate discounts the revenue loss from penalties and interest on tax payments that would be non-compliant without such an automated collections system.

### **Municipal Revenue Gain**

Under current law, 0.1% of sales tax collections are deposited into the Municipal Revenue Sharing Account (MRSA), which distributes grants to municipalities according to historical payments in lieu of taxes for manufacturing equipment, per capita and wealth. Presuming a new collection system as intended by the bill is implemented in 2014, the revenue gain to the Municipal Revenue Sharing account ranges from minimal up to \$220,000 in FY 14 and from minimal up to \$940,000 in FY 15. The actual impact will depend upon the method or system which DRS may implement.

Substitute Senate Bill 843, "AAC Revenue Items to Implement the Governor's Budget," eliminates MRSA and the diversion of sales tax collections which help to support it.

### **Interest Income for the State**

Reducing the time it takes to remit Sales Tax due would yield an annual state revenue gain from interest income of between \$140,000 to \$5,200,000, depending upon the interest rate being earned by the state's Short Term Investment Fund (STIF). The current annualized interest rate earned by the STIF is approximately 0.15%, which would yield revenue of \$140,000 annually; however, the rate varies and was as high as 5.50% in 2007. Using an interest rate of 5.50% yields annual interest income of approximately \$5,200,000. It is anticipated that interest rates for the STIF will remain relatively low over the 2014-2015 Biennium but may increase in future years.

### **DRS Tax Administration**

While no costs are anticipated from DRS studying various methods to enforce and enhance sales tax collections, to the extent that any such sales tax collection method is implemented the bill results in a cost of less than \$150,000 and a potential minimal savings associated with compliance costs. The actual cost would be dependent upon the collection method implemented. For example, it is anticipated that implementation of a sales tax escrow program would require a dedicated Revenue Examiner I at an annual cost of approximately \$81,522 (consisting of \$60,593 for salary and \$20,929 for fringe benefits) to establish compliance guidelines and non-compliance penalties, as well as for enforcement.<sup>2</sup> Other methods may result in one-time costs of \$30,000 or less associated with form alteration and technical/programming changes to the online Taxpayer Service Center (TSC) and the Integrated Taxpayer Administration System (ITAS), in addition to personnel costs.

### ***The Out Years***

The annualized ongoing fiscal impact identified above would

---

<sup>2</sup>The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 34.54% of payroll in FY 14 and FY 15.

continue into the future subject to inflation. In addition, normal annual pension costs (currently estimated at 7.5% of payroll) attributable to the identified personnel changes will be recognized in the state's annual required pension contribution in future actuarial valuations.

*Sources: Auditor's Reports re: DRS  
DRS Annual Reports  
Office of the State Treasurer: Short-Term Investment Fund Interest Rates*

---

**OLR Bill Analysis**

**sSB 1110**

***AN ACT CONCERNING ALTERNATIVE METHODS FOR THE  
COLLECTION AND REMITTAL OF SALES AND USE TAXES.***

**SUMMARY:**

The Office of Legislative Research does not analyze Special Acts.

**COMMITTEE ACTION**

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 35 Nay 14 (04/12/2013)